

HOUSING MARKET OUTLOOK

St. John's CMA



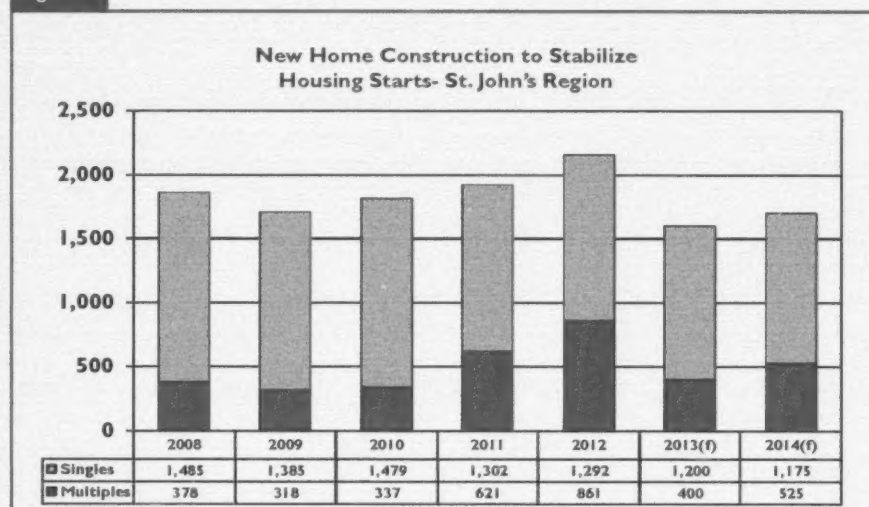
CANADA MORTGAGE AND HOUSING CORPORATION

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Highlights

- Housing starts to decline from recent highs
- Growth in population, income and employment will continue to support housing demand
- Resale market and prices to moderate
- Rental market to remain stable over the forecast period

Figure 1



Source and Forecast: CMHC

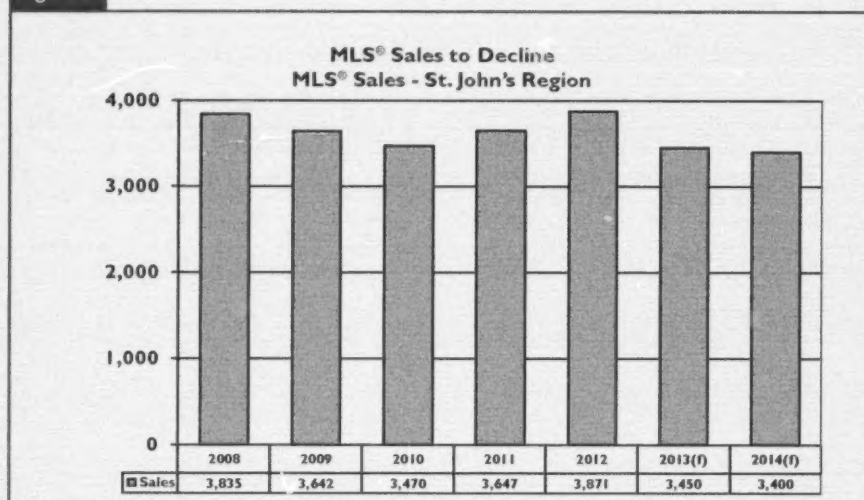
Table of Contents

- 1 Highlights
- 2 Lower New Home Construction Activity
- 2 MLS® Sales to Decrease in 2013 and 2014
- 3 Rental Market will Remain Stable
- 3 Economic Trends
- 4 Mortgage Rates to see Modest and Gradual Increases Late in the Forecast Horizon but will Remain Low by Historical Standards
- 5 Trends at a Glance
- 5 Forecast Risks
- 6 Forecast Summary
- 7 Glossary of Terms, Definitions and Methodology
- 9 CMHC - Home to Canadians

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Figure 2



Source: CREA; Forecast: CMHC

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Lower New Home Construction Activity

In line with recent economic growth, homebuyers continue to express housing preferences for new, higher-end custom homes. As a result, the average price of new homes continues to be considerably higher than the average MLS® price, with the differential now averaging more than \$100,000. Residential construction activity continues to be driven by a strong economy in St. John's and throughout the province. The economic gains have translated into population expansion and income and employment growth. Despite a strong economy, recent price growth is expected to moderate this year and next. It is expected that at the end of 2013, the average single-detached price for a new home will reach approximately \$395,000 compared to \$387,439 in 2012. It is expected to reach \$403,000 in 2014. With record levels of new home construction activity in 2012, single-detached housing starts are expected to end this year down about seven per cent at 1,200 units for the St. John's

area and decline slightly to 1,175 units in 2014.

Following a strong year of construction in the condominium market in 2012, fewer condo starts are expected in 2013 and 2014. The reduction in starts will result in lower overall multiple-unit construction activity over the forecast period. While 861 multiples started in 2012, it is expected that approximately 400 units will have been started by the end of 2013. This number is expected to increase to 525 units in 2014.

Partially due to the decline in the multiple-unit forecast, total housing starts in the St. John's area will amount to 1,600 units in 2013, which is a 25% decline over 2012. Expect total housing starts to rebound in 2014 to 1,700 units.

The recent heightened activity levels within the condo market have been largely due to an aging population base. This trend is expected to continue and result in steady demand throughout the St. John's area in the coming years. However, buyer

preference is to transition from a single family home to a condo without taking on additional mortgage debt. Rising prices within the condo market have made this move more difficult to achieve. As a result, mid-priced (under \$350,000) condo development is expected to gain traction over the forecast period, while the higher-end condo market is expected to slow. This scenario has already been unfolding in 2013.

A long term trend within the new single-detached bungalow home market is the inclusion of a basement apartment. Prospective homebuyers have continued to show interest for this housing type as it allows adding an income-generating apartment unit to offset mortgage carrying costs.

Demand for row and semi-detached homes remains weak, despite the substantial house price growth in this market. Instead, buyers prefer two-apartment homes, choosing to rent the basement unit as a means to offset mortgage carrying costs.

MLS® Sales to Decrease in 2013 and 2014

The St. John's area MLS® market is expected to see lower sales activity this year and next. MLS® sales are expected to reach 3,450 units this year compared to 3,871 sales in 2012 and decline to 3,400 in 2014. With new home sales continuing to represent about one-third of total MLS® sales in this market, residential construction activity will contribute a significant share of total MLS® sales over the forecast period. With overall housing demand expected to remain relatively stable, MLS® sales will remain strong in historical terms. There were 3,871 sales recorded in 2012, which was a record year for the St. John's area. This pace is not

expected to be sustained over the forecast period. Despite price growth, sales remain down and inventory levels have been growing. As a result, sales activity is expected to decline 11 per cent and 1.5 per cent in 2013 and 2014, respectively.

The increase in the average MLS® residential price over the past several years has been driven in part by solid new home construction activity. With increased inventory in the local resale market and demand for resale housing moderating, the forecast is for lower price growth this year and in 2014.

After five years of very strong growth, the average MLS® house price is forecast to increase this year about seven per cent to \$305,000, compared to 2012's average price of \$285,529. The average house price is expected to climb to \$310,000 in 2014. Move-up buyers continue to express a preference for above average-priced two-storey and custom homes. This trend is expected to remain and will continue to support higher prices in this market, while below average-priced bungalows, row and semi-detached homes will attract first-time homebuyers.

Rental Market will Remain Stable

Steady rental demand, coupled with new higher-end and more expensive units will cause the rental market to remain stable this year and next. Rents and the vacancy rate are expected to climb over the forecast period.

On the demand side, increased economic activity will continue to have a positive impact on the in-migration of workers to the St. John's area, primarily from other parts of the province. Existing home prices could deter these prospective homebuyers

from entering homeownership as they may see renting as a more attractive option. Memorial University and local colleges continue to attract both local and international students, who are likely to rent within the area as well, in turn driving demand.

In recent years, condo apartment construction has been exclusively intended for homeownership, although some new units were purchased and rented out by investors. Last year marked a rare occurrence where private investments were made in developing purpose built multi-unit residential projects, thereby increasing the supply of apartments. Accordingly, the vacancy rate for surveyed structures containing three or more rental units (two-apartment homes excluded) is expected to increase to 3.5 per cent this year and to 3.8 per cent in 2014. Despite the expected increases, the vacancy rate will remain relatively low in historic terms and as such, stable demand will continue to exert upward pressure on average rents. Expect the average two-bedroom monthly rent to increase to \$825 by the end of this year and to \$875 in 2014.

Economic Trends

Newfoundland and Labrador will again lead all provinces in economic growth in 2013 as GDP is expected to rise by four per cent, with growth expected to moderate to 1.8 per cent in 2014. The growth is attributed to a rebound in oil production and higher oil prices. In 2013, this trend will continue to have a positive impact on the St. John's economy, as the bulk of the oil industry's economic activities impact the capital city. The economic growth in 2013 will also be supported by sustained consumer spending and additional private sector energy investment activity. Recent news

concerning new potential oil fields outside of the existing production areas may help in supporting market optimism. These new projects, due to their size and scope, will stimulate economic activity over the next several years throughout the province and provide additional support to St. John's economy.

Growth in the Newfoundland and Labrador labour market will slow moderately in 2013 as employment is projected to rise 1.5 per cent compared to 2.3 per cent in 2012. In 2014, expect growth to moderate to one per cent as private sector investment activity slows from levels experienced over the last three years and projects currently under construction reach their completion stage. At the provincial level, a rise in the labour force will result in the unemployment rate inching down slightly from 11.5 per cent in 2013 to 11.3 per cent in 2014.

So far this year, approximately 750 people migrated to Newfoundland and Labrador. Population growth will remain weak over the forecast period as interprovincial migration, which turned negative in 2012, is not expected to turn positive again until 2014. International migration will contribute to population growth in both 2013 and 2014, but the number of people expected will continue to be below levels recorded over the 2011-2012 period. Overall, net-migration is expected to remain positive within St. John's area both this year and in 2014 as migrants continue to be attracted to the region's healthy labour market.

Mortgage Rates to see Modest and Gradual Increases Late in the Forecast Horizon but will Remain Low by Historical Standards

Following the June meeting of the Federal Open Market Committee (FOMC) of the U.S. Federal Reserve Board, interest rates rose modestly and then remained steady in both the U.S. and Canada. According to the Federal Reserve Bank of New York, this reflected a change in the risk assessment of investors and not a change in the expected future path of interest rates.¹

CMHC's interest rate forecast mirrors this view. Hence, mortgage rates have been slightly revised up in the third quarter of 2013 but, thereafter, follow the same interest rate path as before. Nevertheless, this interest rate outlook will continue to be supportive of housing market activity over the forecast horizon, as mortgage rates will remain low by historical standards.

Mortgage rates are expected to increase gradually and steadily over the forecast horizon. By the end of 2014, mortgage rates are forecast to be somewhat higher than in the third quarter of 2013. According to CMHC's base case scenario for 2013, the average for the one-year posted mortgage rate is forecast to be within 3.00 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent. For 2014, the average for the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to

3.75 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.00 per cent.

¹"Preparing for Takeoff? Professional Forecasters and the June 2013 FOMC Meeting," Federal Reserve Bank of New York (2013). Richard Crump, Stefano Eusepi, and Emanuel Moench (<http://libertystreeteconomics.newyorkfed.org/2013/09/preparing-for-takeoff-professional-forecasters-and-the-june-2013-fomc-meeting.html>)

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Short term, mortgage rates are expected to remain at historically low levels which will continue to support housing demand in 2013 and 2014.
Employment	Employment in St. John's has been relatively flat in 2013 due to a slight decline in the labour force, while the unemployment rate remains near record lows and will remain supportive of the housing market.
Income	Average weekly earnings of \$970 year-to-date represent a record high and have increased well above inflation in recent years, including 2013. This has resulted in significant real wage growth and will remain positive for housing demand the remainder of this year and in 2014.
Population and Net Migration	Population growth continues to be driven by positive net-migration to the St. John's area and will stimulate demand for all types of housing in 2013 and 2014.
Resale Market	With overall housing demand expected to remain relatively stable, MLS® sales will remain strong in historical terms.

Forecast Risks

- Oil production and the price of oil represent the two greatest factors underpinning the local economy and also provide the greatest risk to the forecast in terms of both upside and downside risk potential.
- The current inventory of newly built homes for sale could have a negative impact on housing starts for the remainder of this year and in 2014.
- Recent house price growth has led to historically high prices in the St. John's area. If interest rates or unemployment were to increase sharply and significantly, some of the more heavily indebted households could be forced to liquidate some of their assets, including their homes. This could put downward pressure on house prices and, more generally, on housing market activity.

Forecast Summary St. John's CMA Fall 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,479	1,304	1,292	1,200	-7.1	1,175	-2.1
Multiples	337	619	861	400	-53.5	525	31.3
Starts - Total	1,816	1,923	2,153	1,600	-25.7	1,700	6.3
Average Price (\$):							
Single-Detached	325,436	351,305	387,439	395,000	2.0	403,000	2.0
Median Price (\$):							
Single-Detached	299,904	321,450	345,000	352,000	2.0	359,000	2.0
New Housing Price Index (% chg) (St. John's-Sudbury)	5.9	4.0	0.2	1.3	-	1.5	-
Resale Market							
MLS® Sales	3,470	3,647	3,871	3,450	-10.9	3,400	-1.4
MLS® New Listings	6,332	7,073	7,284	7,300	0.2	7,100	-2.7
MLS® Average Price (\$)	251,191	268,608	285,529	305,000	6.8	310,000	1.6
Rental Market							
October Vacancy Rate (%)	1.1	1.3	2.8	3.5	0.7	3.8	0.3
Two-bedroom Average Rent (October) (\$)	725	771	798	825	3.4	875	6.1
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.50	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	100,900	105,400	109,200	112,500	3.0	115,500	2.7
Employment Growth (%)	2.3	4.5	3.6	3.0	-	2.7	-
Unemployment rate (%)	7.7	6.6	7.2	6.8	-	6.5	-
Net Migration	2,738	2,460	2,351	2,300	-2.2	2,200	-4.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly *Starts and Completions Survey*. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's *Market Absorption Survey*, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:

The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:

The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:

Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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